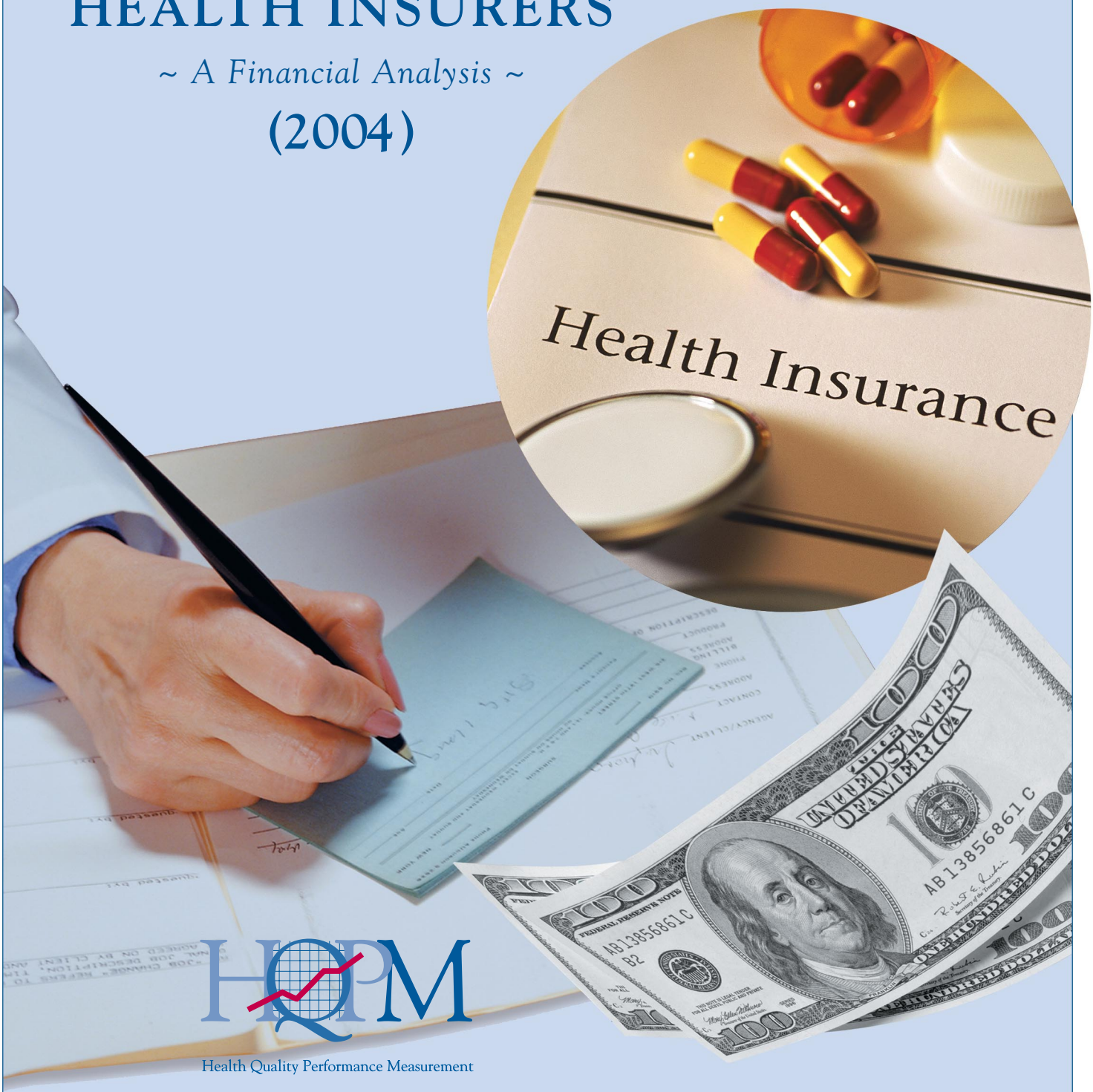
# THE HEALTH OF RHODE ISLAND'S HEALTH INSURERS

*~ A Financial Analysis ~*

(2004)




HQPM

Health Quality Performance Measurement

RHODE ISLAND DEPARTMENT OF HEALTH

OFFICE OF HEALTH INSURANCE COMMISSIONER

# *THE HEALTH OF RI's HEALTH INSURERS (2004)*

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**Report available on the web at www.health.ri.gov**

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# *I: EXECUTIVE SUMMARY*

The three health insurers domiciled in Rhode Island[1] constitute a $2+ billion dollar industry. Together, they spend almost $1.8 billion on healthcare services, mostly to in-state providers. In addition, they expend another $241 million on payroll, marketing, investment and other administrative services.

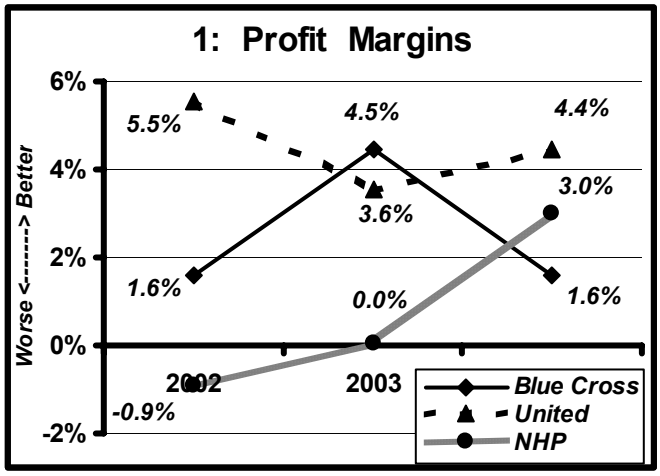
Because of the importance of these insurers in financing healthcare and their related impact on the local economy, the Department of Health (HEALTH) and the Office of Health Insurance Commissioner (OHIC) present the second financial analysis of the industry. This enables HEALTH and the OHIC to recognize superior performance and to inform healthcare policy and consumers alike.

2004 was a year of compromised statewide performance, with 7 of 8 financial measures deteriorating.[2] **Compared to their <u>national</u> counterparts**[3] in 2004, **RI health insurers <u>statewide</u>:**

- **were less profitable** *(2.1% vs. 3.8% profit margins)*,
- **were slower at increasing their net worth** *(+5% vs. +15% equity growth rates)*,
- **had weaker Balance Sheets** *(1.79 vs. 1.95 overall liquidity)*,
- **possessed proportionately smaller reserves** *(44% vs. 49% reserves to total assets)*,
- **held more in unpaid claims** *(53 vs. 43 days claims payment period)*,
- **spent slightly more on healthcare services** *(86% vs. 85.1% medical expense ratios)*, **and**
- **operated no more efficiently than their national counterparts** *(11.8% vs. 11.6% administrative overheads)*.

**Profitability** measures examine the generation of net income, and the creation of wealth. Profitability is key to an insurer's long-term survival because it provides the means to update information systems, to expand marketing, and to build adequate insurance reserves.

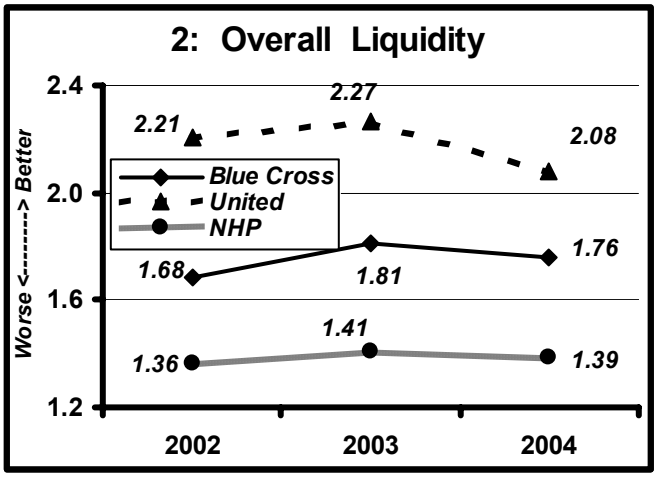
In 2004, statewide profitability dropped –47% (from 4% to 2.1%), finishing significantly lower than both the New England (N.E.) and U.S. benchmarks. Blue Cross & Blue Shield of RI (Blue Cross) was the only individual insurer to experience decreased profitability in 2004, while UnitedHealthcare of New England (UnitedHealthcare) led in profitability (4.4%). Neighborhood Health Plan of RI (NHP) returned to profitability in 2004 after a loss in 2002, and breaking even in 2003 (Chart 1).




RI insurers did not increase their net worth as much as N.E. or U.S. insurers in 2004 (+5% vs. +16% and +15%, respectively). That year, NHP grew its nets assets by +50%, the largest increase in the state, and helped in part by a very modest net worth to begin with (i.e., $8 million). Blue Cross posted an increase of +10% on net assets of $261 million. UnitedHealthcare lost –12% on net assets of $100 million, not because of net losses, but because of transfers to its corporate parent.[4]

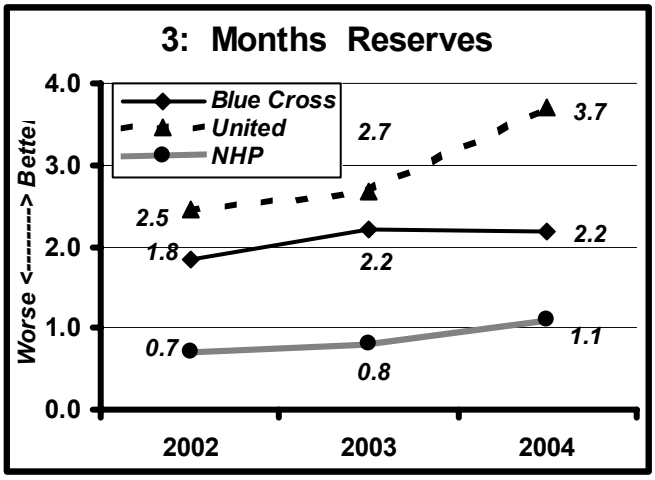
**Liquidity** measures assess the ability of an insurer to cover its obligations, and the relative amount of claims outstanding. Deterioration in liquidity usually indicates cash flow problems and financial difficulty.

In 2004, the statewide *Overall Liquidity* measure was slightly weaker than the regional and national benchmarks. In addition, every individual insurer posted a decline in this measure in 2004 (Chart 2).



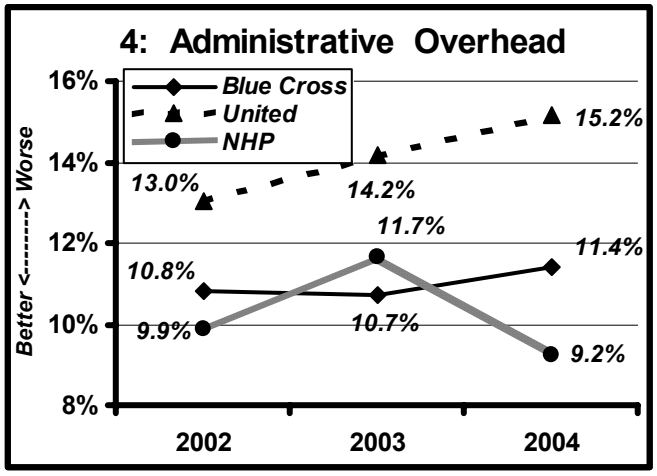

RI insurers also reported higher proportions of claims payable than did insurers elsewhere and there was an unfavorable +5% increase locally in 2004.

**Reserves** measures define the assets in the corporation available for fluctuations in claims costs. As a proportion of total assets, statewide reserves were less than national benchmarks, however, a full 44% of the total assets locally were held in equity. RI reserves grew +5% in 2004 to cover 2.3 months of average operating expenses statewide. This equaled the N.E. rate, but was –11% below the national rate. Individually, NHP improved its value by 38% in 2004, but had coverage only slightly greater than 1 month in 2004 (Chart 3). UnitedHealthcare had the largest reserves in 2004. Policy makers and regulators must balance the conflicting demands for greater reserves with the claims made on those assets by providers seeking higher reimbursement and consumers seeking lower premium increases.




**Efficiency** measures how effectively the insurer prices and delivers healthcare services to its members, and how lean its operations are. Statewide *Medical Loss Ratios* were very consistent with both benchmarks every year from 2002-2004. In addition, in 2004, the statewide value exceeded the NE and US values for the first time, although by negligible margins.

RI's statewide *Administrative Overhead* was consistent with the national and regional values in 2004. Individual *overheads*, however, varied by as much as 65%. NHP maintained the leanest management structure of all insurers, while UnitedHealthcare had the greatest administrative burden (Chart 4).



# II: INTRODUCTION

The technique of ratio analysis has been used for years by investors, financiers and managers to assess the performance of businesses, including insurance companies. The *Health of Rhode Island's Health Insurers* uses this tool to present the second financial analysis of the State's domiciled[5] health insurance industry. It compares each insurer's performance over time (2002-2004), and benchmarks the state as a whole to the national and New England experiences. The primary data sources are the Statutory Financial Filings and the comparable national and regional benchmarks are from the National Association of Insurance Commissioners' health database.[6]

RI currently has three health insurers incorporated and domiciled in the state, Blue Cross & Blue Shield of RI (Blue Cross), UnitedHealthcare of NE (UnitedHealthcare), and Neighborhood Health Plan of RI (NHP).

Blue Cross is a non-profit hospital and medical services corporation (HSC) with a wholly owned for-profit Health Maintenance Organization (HMO) subsidiary Coordinated Heath Partners (BlueCHiP). Blue Cross is the largest insurer in the state, with 78% of the fully-insured domiciled business (based on 2004 Net Premium Income). Blue Cross operates in all three markets, commercial, Medicare and Medicaid. As a non-profit HSC, Blue Cross has explicit commitments to developing programs for uninsured and high-risk individuals and groups as part of its state charter. In addition, Blue Cross is expected to keep premiums as low as possible while 'adequately' reimbursing providers.

UnitedHealthcare, is a for-profit HMO, and the second largest insurer in RI, with 15% of the 2004 domiciled statewide Net Premium Income. As such, it is committed to keeping medical expenses as low as possible in order to generate profits for its ultimate shareholders. UnitedHealthcare also operates in all three markets, commercial, Medicare and Medicaid. Effective January 1, 2004, UnitedHealthcare entered into a reinsurance agreement with a sister corporation, UnitedHealthcare Insurance Company (UHIC)), a Connecticut domestic insurer. This agreement ceded 60% of its commercial business and the attendant risk to UHIC.[7] In addition, UnitedHealthcare has additional reinsurance coverage on the remaining 40% of this commercial business through UHIC. Therefore, UnitedHealthcare is only at risk for its Medicare and Medicaid book-of-business. Also in 2004, UnitedHealthcare transferred $10 million to its parent, UnitedHealthcare Services, Inc. (itself a wholly owned subsidiary of UnitedHealthcare Group, Inc.) to pay back a surplus note and an additional $16.5 million as 'dividends to stockholders.' These are all material operating changes and their ramifications are reflected in this Report.

NHP is a non-profit, Medicaid only HMO, and the smallest domiciled insurer in RI, with 7% of the 2004 fully-insured market. NHP receives premiums from the state Department of Human Services, therefore, significant administrative expenses associated with marketing, enrollment and distribution are avoided and a larger percentage of the premiums are expended on medical services.

The following should help improve this Report's utility:

- Only financial operations are examined. Information on other aspects of performance (e.g., access, clinical, utilization, satisfaction, etc.) is not included. See www.health.ri.gov for publications on these topics.[8]
- This Report does not attempt to answer public policy questions regarding 'optimal' or 'appropriate' profit levels or reserve levels. Such issues are more properly addressed in other forums.
- All health insurers are evaluated here, regardless of tax status, product-lines or legal structure. Hypothetically, financial performance is independent of categorization (i.e., any insurer in the same market area has equal opportunity to perform equally well on any financial measure). However, in a small market with only three domestic insurers, the legal structure and business purpose of the insurer could have an impact on its operating results and should be considered when comparing performance.

- The statewide metric is the aggregate[9] of all three health insurers as opposed to another statistic such as the average or median. The aggregate is a more accurate representation of statewide performance because it weights a larger insurer (Blue Cross) more heavily than a smaller one (NHP). In addition, the benchmarks (U.S. and N.E.) are also calculated as aggregates.
- With every conclusion of overall RI performance, there are usually individual exceptions. For example, the statewide *Profit Margin was* +2.3% in 2002, but NHP experienced a –0.9% loss that year.
- The primary data source is the Audited Statutory Statements filed with the RI Department of Business Regulation. These filings are based on Statutory Accounting Principles (SAP) as opposed to Generally Accepted Accounting Principles (GAAP) used in preparing the Audited Financial Statements. One key difference is that the Statutory Statements consider the wholly insured book-of-business only, as opposed to the Audited Financials which capture all lines of business an insurer is engaged in. Therefore, this Report analyzes the insurers' primary function, underwriting healthcare coverage, it is not inclusive of all corporate activities. Statutory filings were chosen as the source documents solely because of the availability of comparable benchmark data.
- When the individual insurers are compared overall, weighted averages are used.[10] The relative weights given to yearly performance are 25% for 2002, 34% for 2003, and 41% for 2004. Therefore, and logically, the insurer's most recent performance is considered more important than how it operated in prior years.
- The raw data and calculations for each of the 8 measures in this Report are included in the Appendix.

# III: PROFITABILITY

**Profitability** measures examine the generation of net income, and the creation/retention of wealth. Profitability is key to an insurer's long-term survival. Insurers that are consistently unprofitable will have insufficient funds to meet current requirements, to invest in new information systems, or to add to the reserves. Two profitability statistics are presented: *Profit Margins*, and *Equity Growth Rates*.

***A. Profit Margins*** are the bottom-line profits from insurance operations and investment activities, reflecting all realized gains and losses for the year (Table 1). All organizations, regardless of tax-status, need to operate profitably in order to remain viable. There is a real cost in not maintaining profitable operations. If working capital is inadequate, an insurer may need to fund its operations with short-term loans or spending its reserves. Therefore, from a financial standpoint, higher values on this measure are preferred. However, from a public policy standpoint, debate remains over what are 'adequate', 'insufficient', or 'excessive' levels of profitability. Such a determination would necessarily balance the need for maintaining 'adequate' profitability and reserves with the competing interests of consumers for lower premiums and providers for higher reimbursement.

**1. Profit Margins**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 1.6% | 4.5% | 1.6% | -64% |
| UnitedHealthcare | 5.5% | 3.6% | 4.4% | 25% |
| Neighborhood HP | -0.9% | 0.0% | 3.0% | 7840% |
| Rhode Island | 2.3% | 4.0% | 2.1% | -47% |
| New England | 3.1% | 4.1% | 3.6% | -11% |
| United States | 2.5% | 3.9% | 3.8% | -3% |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

Statewide profitability lagged the regional benchmarks each year and also ended unfavorably below the national value in 2004.

Individual profitability histories were varied. Blue Cross was the only insurer to see its margin decline in 2004 (4.5% to 1.6%), as UnitedHealthcare overtook it as the most profitable insurer in the state. NHP returned to profitability, with a respectable margin of 3% after a loss in 2002 and break-even in 2003. Overall, UnitedHealthcare led in profitability, with a three-year weighted average of 4.4%, compared to 2.6% for Blue Cross and 1% for NHP.

***B. Equity Growth Rates*** measures what is happening to the net worth of the insurer (Table 2). Healthy organizations are expected to increase in value over time. Two primary factors affect equity: profitability and investment returns. A reduction in equity raises concerns that the company may be unable to internally fund its capital and operating needs especially if that reduction came from operating losses.

**2. Equity Growth Rates**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 5% | 27% | 10% | -64% |
| UnitedHealthcare | 37% | 20% | -12% | -160% |
| Neighborhood HP | -17% | 7% | 50% | 663% |
| Rhode Island | 11% | 24% | 5% | -81% |
| New England | 21% | 28% | 16% | -42% |
| United States | 11% | 44% | 15% | -66% |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

Statewide performance on this measure was generally poor for the period when compared to the benchmarks. On a compounded basis for these 3 years, RI net assets increased +45% compared to +79% in N.E., and +84% in the U.S.

Every individual insurer increased its net worth each year, with the exceptions of NHP in 2002 and UnitedHealthcare in 2004. NHP's net worth shrunk in 2002 because of net losses, but UnitedHealthcare's situation was different. In 2004 it posted the best margin in the state (4.4%), but its net worth fell –12%. This was not caused by negative margins or investment losses, but by the transfer of $26.5 million to its corporate parent in the form of a surplus note repayment and 'dividends to stockholders.'

NHP had a large proportional growth in equity in 2004 (+50%), aided in part by a relatively small net worth to begin with ($8 million in 2003). By comparison, UnitedHealthcare had a net worth of $100 million in 2003, and Blue Cross' net worth was $261 million. On a cumulative basis over these three years (2002-2004), Blue Cross led with a compounded equity gain of +45%, followed closely by UnitedHealthcare (+44%) and NHP (+33%).

# IV: LIQUIDITY

**Liquidity** measures examine the ability of an insurer to meet its obligations (i.e., to pay its bills and other liabilities), and the relative timing of claims payment. Most organizations experience a financial problem because of a liquidity crisis, and deterioration in these measures may presage future insolvency. Two liquidity statistics are examined: *Overall Liquidity*, and *Claims Payment Period*.

***A. Overall Liquidity*** measures how many times the liabilities are covered by the assets available to pay those obligations (Table 3). To put it in other terms, *Overall Liquidity* is the ability of the insurer to generate sufficient cash on an emergency basis to meet its commitments. Higher values are preferred, both over time and in relation to any comparable benchmarks.

**3. Overall Liquidity**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 1.68 | 1.81 | 1.76 | -3% |
| UnitedHealthcare | 2.21 | 2.27 | 2.08 | -8% |
| Neighborhood HP | 1.36 | 1.41 | 1.39 | -2% |
| Rhode Island | 1.76 | 1.88 | 1.79 | -5% |
| New England | 1.66 | 1.78 | 1.85 | 3% |
| United States | 1.70 | 1.83 | 1.95 | 7% |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

RI Liquidity in 2004 was slightly weaker than in the region (-3% lower) or the nation (-8% lower). This was an unfavorable change from the previous two years in which RI values were improving and above both benchmarks. The 2004 decline was precipitated by total liabilities (i.e., obligations) growing faster (+16%) than the total assets to pay for them (+11%).

Individual insurers all posted unfavorable reductions in this measure in 2004. On a cumulative basis over this period (2002-2004), UnitedHealthcare had the strongest liquidity, with a weighted average of 2.18, followed by Blue Cross (1.76), and NHP (1.39).

***B. Claims Payment Period*** provides a relative measure of the outstanding medical claims, equating them to how many days it would take to pay off all outstanding claims at the current average rate of payment (Table 4). It does not measure the actual time it takes an insurer to settle a particular claim.[11] While larger balances of outstanding claims can temporarily improve an insurer's cash position, they nonetheless represent payments owed to providers. Therefore, it should be considered good business practice to see lower values on this measure, both over time and in relation to any benchmarks.

**4. Claims Payment Period *(Days)***

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 51 | 50 | 51 | *3%* |
| UnitedHealthcare | 46 | 49 | 58 | *19%* |
| Neighborhood HP | 56 | 47 | 47 | *1%* |
| Rhode Island | 51 | 49 | 52 | *5%* |
| New England | 42 | 44 | 41 | *-8%* |
| United States | 49 | 46 | 43 | *-7%* |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

The statewide metric increased unfavorably in 2004 (+5%), while both regional and national comparables improved (-8% and –7%, respectively). Interestingly, throughout this period (2002-2004), RI insurers have generally always maintained a greater balance of unpaid claims than their cohorts.

All insurers experienced increases in this measure in 2004, with UnitedHealthcare posting the largest unfavorable gain of +19%. On a three year weighed average basis, however, there was little difference among the companies, with UnitedHealthcare at 52 days, Blue Cross at 51 and NHP at 49.

# V: RESERVES

**Reserves** indicate the importance of equity in financing the insurer, and the ability to fund operations from the reserves. Two statistics are presented: *Reserves to Total Assets*, and *Months Reserves*. From a financial strength standpoint, higher values are preferred on both these measures because they indicate a greater cushion of internal resources that may be used in case of cash-flow emergencies.

From a public policy standpoint, the issue is less clear. All three insurers meet the RI statutory minimum reserve levels adopted from a standardized benchmark developed by the National Association of Insurance Commissioners. However, these are minimum requirements only. At what point, if any, reserves are 'better invested' in shareholders, or used to subsidize lower premiums or increase reimbursement rates is a subject of debate.

***A. Reserves to Total Assets*** provides a measure of the amount of equity relative to the overall size of the insurer (Table 5). Low leverage is important because borrowing (i.e., debt), is usually a less desirable way of funding operating or capital needs. Debt is mostly a long-term obligation, so in the absence of arbitrage[12] opportunities, it should generally be avoided.

**5. Reserves to Total Assets**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 41% | 45% | 43% | *-4%* |
| UnitedHealthcare | 55% | 56% | 52% | *-7%* |
| Neighborhood HP | 27% | 29% | 28% | *-5%* |
| Rhode Island | 43% | 47% | 44% | *-6%* |
| New England | 40% | 42% | 46% | *9%* |
| United States | 41% | 45% | 49% | *8%* |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

Statewide *Reserves to Total Assets* declined –6% in 2004, and ended below both benchmarks. However, this was not overly unfavorable, as statewide equity still increased +5% (while the total assets grew by +11%). In addition, the fact remains that a full 44% of the total assets were held in reserves as equity.

Few industries are so strongly capitalized. Health insurers are predominately marketers and purchasers of health services so it is not unexpected they would have so little financial leverage. With the exception of information systems, large investments in property, plant and equipment are simply not needed. For

those fixed assets that are required, many are obtained through lease financing.

Individually, NHP had relatively low values due to its modest reserve balances. UnitedHealthcare led the way, with over half its asset base comprised of equity (i.e., reserves). Even with the aforementioned transfer of funds to its corporate parent, and subsequent reduction in equity, UnitedHealthcare remained the most well-capitalized insurer in the state.

***B. Months Reserves*** are the average number of months operations could be funded with equity (Table 6). This statistic measures the duration of the insurer's net worth relative to its expenses, with higher values preferred.

**6. Months Reserves**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 1.8 | 2.2 | 2.2 | -2% |
| UnitedHealthcare | 2.5 | 2.7 | 3.7 | 39% |
| Neighborhood HP | 0.7 | 0.8 | 1.1 | 38% |
| Rhode Island | 1.9 | 2.2 | 2.3 | 4% |
| New England | 1.8 | 2.1 | 2.3 | 10% |
| United States | 2.0 | 2.4 | 2.6 | 9% |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

RI's insurers continued to increase this measure in 2004 (+4%), however, that performance lagged the New England and national comparables (+10% and +9%, respectively).

UnitedHealthcare was an individual standout on this metric, increasing its *Months Reserves* by +39% in 2004, to end the period significantly above both competitors. As expected from its low value on the *Reserves to Total Assets* measure above, NHP was a low performer even though it improved its value by +38%. In 2004, NHP's reserves could only cover 1.1 months of average operating expenses (even though it met the statutory minimum reserve levels).

# VI: EFFICIENCY

**Efficiency** refers to how productively an insurer prices its products and provides services, and how lean its operations are. Two efficiency measures are examined: *Medical Loss Ratios*, and *Administrative Overhead*.[13]

***A. Medical Loss Ratios*** are the percentage of total premium revenue that Health Insurers spend on healthcare services for their members (Table 7). Consumers generally favor higher loss ratios because they indicate a greater portion of their premium dollars are going into their healthcare. Financial analysts on the other hand, generally prefer lower loss ratios because they indicate a more favorable expense structure and greater profits (all else being equal). Policy makers, however, would consider the medical (and administrative) expenses relative to the premium levels to balance the need for 'affordable' coverage with the need for solvent (i.e., financially strong) insurers.

A lower *Medical Loss Ratio* does not necessarily imply that an insurer restricts access to healthcare services. A low loss ratio could instead reflect any combination of: higher premiums, lower reimbursement rates, a less ill membership, or more effective management of care to the enrollees.

**7. Medical Loss Ratios**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 87.1% | 84.7% | 87.0% | 3% |
| UnitedHealthcare | 80.4% | 85.0% | 78.7% | -7% |
| Neighborhood HP | 92.4% | 90.8% | 90.1% | -1% |
| Rhode Island | 85.9% | 85.1% | 86.0% | 1% |
| New England | 86.0% | 84.8% | 85.7% | 1% |
| United States | 85.9% | 84.9% | 85.1% | 0% |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

Statewide loss ratios almost exactly mirrored their regional and national counterparts each year (any differences were less than +-1.5%). Also the statewide values held almost constant over the period (2002-2004).

Individually, there was considerable variation in the 2004 loss ratios. UnitedHealthcare benefited from the lowest value (79%), which favorably impacted its bottom-line to the highest profitability position in the state (Table 1). NHP on the other hand, had a relatively high loss

ratio (90%) that negatively affected its profitability (Table 1).

NHP was able to maintain the most consistent loss ratios over the period. This ability was assisted by its main book-of-business, underwriting Medicaid (i.e., RiteCare) coverage. The State as the purchaser for this service, essentially offers the contracts out annually at a set price (based primarily on current cost and utilization data). Commercial insurers on the other hand, usually enter into multi-year, multiple group contracts with varying utilization profiles. This makes it much more difficult to estimate the future demand for and costs of healthcare services, and to price the premiums accordingly.

***B. Administrative Overhead*** measures how much an insurer spends on management and marketing relative to the premium revenue it receives (Table 8). All parties, from purchasers, policy makers, providers and the payors themselves should agree that lower values on this metric are preferred.

**8. Administrative Overhead**

| | 2002 | 2003 | 2004 | '03-'04 Change |
|---|---|---|---|---|
| Blue Cross[1] | 10.8% | 10.7% | 11.4% | *6%* |
| UnitedHealthcare | 13.0% | 14.2% | 15.2% | *7%* |
| Neighborhood HP | 9.9% | 11.7% | 9.2% | *-21%* |
| Rhode Island | 11.3% | 11.5% | 11.8% | *2%* |
| New England | 10.9% | 11.1% | 10.7% | *-4%* |
| United States | 12.1% | 11.8% | 11.6% | *-2%* |

[1] *Includes Blue Cross' wholly owned subsidiary, BlueCHiP*

Statewide *Administrative Overheads* remained remarkably stable from 2002-2004. RI overheads exceeded the regional benchmarks every year, and the national benchmark in 2004. In addition, in 2004, the local value increased slightly while both benchmarks declined.

UnitedHealthcare consistently had the highest overheads of all insurers, and was least effective at controlling these costs over time. This could be a function of being a corporate subsidiary paying for allocated services from its parent and purchased services from affiliated corporate entities.[14] In contrast, NHP's overheads were usually the lowest in the state (with the exception of 2003). Given that NHP was also the smallest insurer,[15] makes this fairly noteworthy given the smaller base over which to spread these costs. Again, this was perhaps a function of only offering Medicaid coverage. As such, NHP did not incur the marketing expenses associated with operating in the commercial market.
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# Appendix

| | RI Health Insurers (Consolidated) *(Dollars in **Thousands**)* | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| *1* | **Total Assets** | $690,895 | $790,962 | $877,011 |
| *2* | **Claims Unpaid** | $231,602 | $236,235 | $248,787 |
| *3* | **Total Liabilities** | $393,157 | $421,470 | $490,232 |
| *4* | **Total Capital and Surplus** | $297,739 | $369,493 | $386,779 |
| *5* | **Net Premium Income** | $1,947,455 | $2,055,918 | $2,045,350 |
| *6* | **Total Revenues** | $1,948,472 | $2,072,656 | $2,048,054 |
| *7* | **Total Hospital and Medical** | $1,673,821 | $1,750,148 | $1,759,291 |
| *8* | **Claims Adjustment Expenses** | $75,203 | $78,751 | $89,695 |
| *9* | **General Admin. Expenses** | $144,061 | $158,676 | $151,692 |
| *10* | **Total Underwriting Deductions** | $1,891,592 | $1,988,043 | $2,000,611 |
| *11* | **Net Income (Loss)** | $44,698 | $82,939 | $43,184 |

*Source: statutory financial statements, Includes all RI domiciled Health Insurers*

| | RI Health Insurers (Consolidated) | 2002 | 2003 | 2004 |
|---|---|---|---|---|
| ***PROFITABILITY:*** | | | | |
| *1* | **Profit Margin** | 2.3% | 4.0% | 2.1% |
| *2* | **Equity Growth Rate** | 11% | 24% | 5% |
| ***RESERVES:*** | | | | |
| *3* | **Overall Liquidity** | 1.76 | 1.88 | 1.79 |
| *4* | **Claims Payment Period** | 51 | 49 | 52 |
| ***LEVERAGE:*** | | | | |
| *5* | **Reserves to Total Assets** | 43% | 47% | 44% |
| *6* | **Months Reserves** | 1.9 | 2.2 | 2.3 |
| ***EFFICIENCY:*** | | | | |
| *7* | **Medical Loss Ratio** | 85.9% | 85.1% | 86.0% |
| *8* | **Administrative Overhead** | 11.3% | 11.5% | 11.8% |

*1 net income / total revenues; higher values are preferred*
*2 annual % change in total capital & surplus (2001 amount was $267,403k); higher values are preferred*
*3 total assets / total liabilities; higher values are preferred*
*4 claims unpaid / (total medical & hospital / 365); lower values are generally preferred*
*5 total capital & surplus / total assets; higher values are preferred*
*6 total capital & surplus / (total underwriting deductions / 12); higher values are*
*7 total hospital and medical / net premium income; from a financial 'efficiency' standpoint, lower values are preferred*
*8 (claims adjustment expenses + general admin. expenses) / net premium income; lower values are preferred*

# Appendix Cont.

| Blue Cross & Blue Shield of RI (Dollars in **Thousands**) | 2002 | 2003 | 2004 |
|---|---|---|---|
| 1 Total Assets | $509,499 | $584,153 | $663,590 |
| 2 Claims Unpaid | $168,676 | $171,095 | $195,295 |
| 3 Total Liabilities | $302,815 | $322,671 | $377,060 |
| 4 Total Capital and Surplus | $206,684 | $261,482 | $286,530 |
| 5 Net Premium Income | $1,382,275 | $1,485,151 | $1,608,338 |
| 6 Total Revenues | $1,382,275 | $1,485,151 | $1,608,338 |
| 7 Total Hospital and Medical | $1,204,044 | $1,257,924 | $1,399,893 |
| 8 Claims Adjustment Expenses | $61,281 | $60,732 | $73,947 |
| 9 General Admin. Expenses | $88,486 | $98,749 | $109,157 |
| 10 Total Underwriting Deductions | $1,352,319 | $1,417,405 | $1,582,998 |
| 11 Net Income (Loss) | $21,729 | $66,358 | $25,635 |

*Source: statutory financial statements, includes BlueCHiP (a wholly owned subsidiary) and all intercompany transfers have been eliminated*

| Blue Cross & Blue Shield of RI | 2002 | 2003 | 2004 |
|---|---|---|---|
| ***PROFITABILITY:*** | | | |
| 1 Profit Margin | 1.6% | 4.5% | 1.6% |
| 2 Equity Growth Rate | 5% | 27% | 10% |
| ***LIQUIDITY:*** | | | |
| 3 Overall Liquidity | 1.68 | 1.81 | 1.76 |
| 4 Claims Payment Period | 51 | 50 | 51 |
| ***RESERVES:*** | | | |
| 5 Reserves to Total Assets | 41% | 45% | 43% |
| 6 Months Reserves | 1.8 | 2.2 | 2.2 |
| ***EFFICIENCY:*** | | | |
| 7 Medical Loss Ratio | 87.1% | 84.7% | 87.0% |
| 8 Administrative Overhead | 10.8% | 10.7% | 11.4% |

1 *net income / total revenues; higher values are preferred*
2 *annual % change in total capital & surplus (2001 amount was $197,269k); higher values are preferred*
3 *total assets / total liabilities; higher values are preferred*
4 *claims unpaid / (total medical & hospital / 365); lower values are generally preferred*
5 *total capital & surplus / total assets; higher values are preferred*
6 *total capital & surplus / (total underwriting deductions / 12); higher values are*
7 *total hospital and medical / net premium income; from a financial 'efficiency' standpoint, lower values are preferred*
8 *(claims adjustment expenses + general admin. expenses) / net premium income; lower values are preferred*

# Appendix Cont.

| UnitedHealthcare of NE (Dollars in **Thousands**) | 2002 | 2003 | 2004 |
|---|---|---|---|
| 1 Total Assets | $152,277 | $178,625 | $169,122 |
| 2 Claims Unpaid | $44,487 | $51,208 | $37,906 |
| 3 Total Liabilities | $68,942 | $78,840 | $81,206 |
| 4 Total Capital and Surplus | $83,335 | $99,786 | $87,916 |
| 5 Net Premium Income | $435,864 | $450,522 | $302,729 |
| 6 Total Revenues | $435,867 | $464,996 | $302,656 |
| 7 Total Hospital and Medical | $350,250 | $383,062 | $238,381 |
| 8 Claims Adjustment Expenses | $13,922 | $14,264 | $12,337 |
| 9 General Admin. Expenses | $42,823 | $49,640 | $33,558 |
| 10 Total Underwriting Deductions | $406,995 | $447,434 | $284,208 |
| 11 Net Income (Loss) | $24,174 | $16,535 | $13,436 |

*Source: statutory financial statements*

| UnitedHealthcare of NE | 2002 | 2003 | 2004 |
|---|---|---|---|
| ***PROFITABILITY:*** | | | |
| 1 Profit Margin | 5.5% | 3.6% | 4.4% |
| 2 Equity Growth Rate | 37% | 20% | -12% |
| ***LIQUIDITY:*** | | | |
| 3 Overall Liquidity | 2.21 | 2.27 | 2.08 |
| 4 Claims Payment Period | 46 | 49 | 58 |
| ***RESERVES:*** | | | |
| 5 Reserves to Total Assets | 55% | 56% | 52% |
| 6 Months Reserves | 2.5 | 2.7 | 3.7 |
| ***EFFICIENCY:*** | | | |
| 7 Medical Loss Ratio | 80.4% | 85.0% | 78.7% |
| 8 Administrative Overhead | 13.0% | 14.2% | 15.2% |

1 *net income / total revenues; higher values are preferred*
2 *annual % change in total capital & surplus (2001 amount was $60,852k); higher values are preferred*
3 *total assets / total liabilities; higher values are preferred*
4 *claims unpaid / (total medical & hospital / 365); lower values are generally preferred*
5 *total capital & surplus / total assets; higher values are preferred*
6 *total capital & surplus / (total underwriting deductions / 12); higher values are*
7 *total hospital and medical / net premium income; from a financial 'efficiency' standpoint, lower values are preferred*
8 *(claims adjustment expenses + general admin. expenses) / net premium income; lower values are preferred*

# Appendix Cont.

| Neighborhood Health Plan of RI (Dollars in **Thousands**) | 2002 | 2003 | 2004 |
|---|---|---|---|
| 1 Total Assets | $29,119 | $28,184 | $44,299 |
| 2 Claims Unpaid | $18,438 | $13,932 | $15,586 |
| 3 Total Liabilities | $21,400 | $19,959 | $31,966 |
| 4 Total Capital and Surplus | $7,719 | $8,225 | $12,333 |
| 5 Net Premium Income | $129,316 | $120,245 | $134,283 |
| 6 Total Revenues | $130,330 | $122,509 | $137,060 |
| 7 Total Hospital and Medical | $119,528 | $109,162 | $121,017 |
| 8 Claims Adjustment Expenses | $0 | $3,755 | $3,411 |
| 9 General Admin. Expenses | $12,752 | $10,287 | $8,977 |
| 10 Total Underwriting Deductions | $132,279 | $123,204 | $133,405 |
| 11 Net Income (Loss) | ($1,206) | $46 | $4,113 |

*Source: statutory financial statements*

| Neighborhood Health Plan of RI | 2002 | 2003 | 2004 |
|---|---|---|---|
| ***PROFITABILITY:*** | | | |
| 1 Profit Margin | -0.9% | 0.0% | 3.0% |
| 2 Equity Growth Rate | -17% | 7% | 50% |
| ***LIQUIDITY:*** | | | |
| 3 Overall Liquidity | 1.36 | 1.41 | 1.39 |
| 4 Claims Payment Period | 56 | 47 | 47 |
| ***RESERVES:*** | | | |
| 5 Reserves to Total Assets | 27% | 29% | 28% |
| 6 Months Reserves | 0.7 | 0.8 | 1.1 |
| ***EFFICIENCY:*** | | | |
| 7 Medical Loss Ratio | 92.4% | 90.8% | 90.1% |
| 8 Administrative Overhead | 9.9% | 11.7% | 9.2% |

1 *net income / total revenues; higher values are preferred*
2 *annual % change in total capital & surplus (2001 amount was $9,283k); higher values are preferred*
3 *total assets / total liabilities; higher values are preferred*
4 *claims unpaid / (total medical & hospital / 365); lower values are generally preferred*
5 *total capital & surplus / total assets; higher values are preferred*
6 *total capital & surplus / (total underwriting deductions / 12); higher values are*
7 *total hospital and medical / net premium income; from a financial 'efficiency' standpoint, lower values are preferred*
8 *(claims adjustment expenses + general admin. expenses) / net premium income; lower values are preferred*

## *Endnotes:*

[1] *Blue Cross & Blue Shield of RI (including its wholly owned subsidiary, Coordinated Health Partners), UnitedHealthcare of NE, and Neighborhood Health Plan of RI. On January 2005, Coordinated Health Partners disincorporated and no longer legally exists. Its health plans have been incorporated into Blue Cross & Blue Shield of RI's product lines. .This analysis does not include United HealthCare Insurance Company, the Connecticut domiciled company reinsuring 60% of UnitedHealthCare of NE's commercial business.*

[2] *The Months Reserves ratio was the only measure to improve in 2004 (from 2.2 to 2.3 months)*

[3] *All of these conclusions regarding statewide performance compared to national performance, also hold true when RI is compared to the regional (i.e., N.E.) performance*

[4] *UnitedHealthcare of NE is a wholly owned subsidiary of UnitedHealthcare Services, Inc., itself a wholly owned subsidiary of UnitedHealthcare Group Inc. In 2004, UnitedHealthcare of NE transferred $10 million to repay a surplus note, and paid out $16.5 million as 'dividends to stockholders'.*

[5] *RI has primary regulatory responsibility for the insurer which may differ from the location of its corporate headquarters*

[6] *Raw data extracted from the NAIC-Health (annual statement) database using Highline Data software. 2004 & 2003 benchmarks include 626 insurers nationally and 43 insurers in New England. 2002 benchmarks include 615 insurers nationally and 39 insurers in New England. To preserve the integrity of the Equity Growth Rates calculations, the same number of insurers was used for each current year and prior year (i.e., 2004 & 2003, 2003 & 2002, and 2002 & 2001).*

[7] *Footnote #10 (p 25.5) of its 2004 Statutory Filing*

[8] *Rhode Island Commercial Health Plans' Performance Report ~2003, Cryan B., HEALTH, Feb. 2005, and Rhode Island Medicare & Medicaid Factbook ~2003, Cryan B., HEALTH, Apr. 2005*

[9] *The numerator is the total of all 3 insurers' numerators and the denominator is the total of all 3 insurers' denominators*

[10] *The exception is the Equity Growth Rate measure which uses a three-year compounded rate rather than a weighted average*

[11] *This measure includes Incurred But Not Reported (IBNR) claims in the numerator, and the insurer does not have the ability to make payment on these claims, so the final measure does NOT provide a true reflection of the actual number of days to settle a particular claim*

[12] *The simultaneous buying and selling of securities in separate markets to take advantage of different rates while controlling for risk (e.g., borrowing @ 5% to invest in 6% securities or a project returning 7%)*

[13] *Even though the actual accounting is more complex because the Profit Margin includes revenue from other sources than premiums in its numerator, these relationships may be conceptually expressed as: Medical Loss Ratio + Administrative Overhead + Profit Margin = 100%(+) of (premiums)*

[14] *The Administrative Overhead does not include the $16.5 million paid out as 'dividends to stockholders' referenced in [4]. According to footnote #10 (pp 25.4 & 25.5) in its 2004 Statutory Filing, UnitedHealthcare paid a management fee based on a percentage of premium and government program revenues to UnitedHealthcare Services, Inc. (UHS), and per-claim pharmacy management fees to UHS. By comparison, Blue Cross also paid Perot Systems Healthcare Services Corporation for certain administrative services.*

[15] *In 2004, NHP was 1/10$^{th}$ the size of Blue Cross in terms of Net Premium Income*